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The new growth path: the framework

Download the New Growth Path Framework launched by E Patel

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[36 pages, PDF]

Minister Ebrahim Patel released the framework of the New Economic Growth Path at Tuynhuis today, presenting to the public a policy aimed at enhancing growth, employment creation and equity. The policy's principal target is to create five million jobs over the next ten years.

Addressing the Parliamentary Portfolio committee via video-link from Pretoria, Minister Patel said, "This document reflects Government's commitment to prioritising employment creation in all economic policies. It lays out strategies to enable South Africa to grow in a more equitable and inclusive manner in the future, fulfilling the promise of our democracy."

He added, "The centrepiece of the new growth path is a massive investment in infrastructure and people through skills development, together with smart government and better coordination with the private sector and organised labour so that we can achieve our national goals."

Minister Patel stressed that, “The shift to a new growth path challenges every South African to contribute to building our nation over the coming twenty years. It demands collective efforts, creativity and solidarity across South African society. It will require leadership and strong governance. It takes account of the new opportunities that are available to us, the strengths we have and the constraints we face.”

“The key challenge will be that of implementation and we are frank about the need for a more coordinated and effective state. We have too many agencies and too little coordination between them. We can only achieve our jobs targets if the state performs better and if the private sector grows in labour-absorbing parts of the economy. The growth path proposes ways to achieve that”, he said.

Areas of priority

Infrastructure development is identified as a critical driver of jobs across the economy. The document identifies investments in five key physical and social infrastructure areas, namely energy, transport, communication, water and housing. The sustaining of high levels of public investment in these areas would create jobs in construction, operation and maintenance of infrastructure.

The New Growth Path sees the infrastructure programme as a trigger to build a local supplier industry for the manufacture the components for the build-programme. Specific measures, particularly changes to procurement policy and regulations, are identified to ensure this is achieved.

The New Growth Path sets out an ambitious programme to create jobs, through a series of partnerships between the state and the private sector that builds on our strengths in the following areas:

- In *the green economy*, expansions in construction and the production of technologies for solar, wind and biofuels is supported by the draft plan for electricity (IRP 2), which proposes that green energy sources contribute 30% of new energy generation in the next 20 years. Clean manufacturing and environmental services is projected to create 300 000 jobs over the next decade.
- Jobs will be created in *agriculture* through interventions to improve efficiency by addressing the high costs of fertiliser and other inputs and by upscaling processing and export marketing. More livelihoods can also be created through support for smallholders, including access to seeds, silos, tractors, finance, marketing, water, extension services and other key inputs. In addition, government will explore ways to improve working and living

conditions for the country's 660 000 farm workers. The New Growth Path also commits the government to unblocking stalled land transfers which constrain new investment.
- In the *mining* sector, the document calls for increased mineral extraction through reviewing the existing legal framework and improving infrastructure and skills development. It focuses support for beneficiation on the final manufacture of consumer and capital goods, which can create large-scale employment, rather than only on smelting and refining, which are relatively capital and energy intensive. It foresees the establishment of a state mining company concentrating on beneficiation and enhanced resource exploitation in competition with a strong private mining sector.
- The New Growth Path calls for re-industrialisation in the South African economy based on improving *manufacturing* performance through innovation, strong skills development and reduced input costs in the economy. The document targets a doubling of South Africa's research and development investment to 2% of GDP by 2018.
- It identifies the employment potential of *tourism and other high-level services* and calls for South Africa to position itself as the higher education hub of the African continent.

Policy packages

The document recognises the need for a coordinated set of actions across a broad front and identifies a "development package" consisting of macroeconomic strategies, microeconomic measures and stakeholder commitments to drive employment and economic growth.

In a number of areas, the document recognises the challenges of an uncompetitive currency and sets out clear steps for government to address the impact of the rand on the economy and jobs. This includes a somewhat looser monetary policy with lower interest rates, greater building of foreign reserves and a sovereign wealth fund to manage foreign reserves more actively. The document notes that the monetary policy stance will do more to support a competitive exchange rate while continuing to target low and stable inflation.

The New Growth Path requires that government widen the range of tools that it uses to address inflation. This will involve a stronger role for competition policy and strategic investigations into conduct leading to high and volatile prices for intermediate inputs for producers and basic consumer goods, includingimportant commodities such as maize, steel and fertilisers.

To ensure that looser monetary policy does not cause high inflation and to support a sustainable macroeconomic framework, the document identifies the need for slower growth in public expenditure, with real growth at around 2% per annum over the next few years. However, the document recognises the need for additional resources on a number of key priorities set out in the New Growth path.

In order to secure the necessary resources, vigorous effort will be undertaken to cut wasteful spending, tackle corruption and align the allocation of public money with developmental priorities. These efforts should release significant resources for employment-related and infrastructure programmes. The New Growth Path also foresees innovative ways to raise funds for development, ranging from a development bond to more active use of the balance sheets of the Development Finance Institutions. The Industrial Development Corporation has been asked to significantly expand its pool of investible funds and the Public Investment Corporation is expected to align investment decisions with development goals more rigorously.

The document calls for a broad pact between business, labour and government aimed at fostering employment creation whilst enhancing competitiveness and social equity and development goals. The pact will include commitments on wages, prices, savings and jobs. The proposal on commitments to lower prices by businesses particularly concerns input costs and basic consumer goods.

This is accompanied by a proposal, for discussion with business and labour, for moderate wage settlements linked to clear commitments by business to save jobs, create new jobs and address inequality. For employees earning between R3000 and R20 000 a month, it proposes a modest increase above inflation. Pay increases for workers earning under R3000 would not be constrained, while increases for those earning above R20 000 to R45 000 a month would peg inflation. High-earners taking home over R45 000 a month would see increases below inflation or capped. Restraint in executive pay and bonuses would address excessive pay differentials and display solidarity across society.

Government would in turn commit to maintain the real value of social grants and improve the social wage, that is, housing, healthcare and education.

The New Growth Path calls for a major rethink of the BEE framework and policy and points to a number of weaknesses in the current operation of BEE, including the excessive focus on transactions that involve existing assets and benefit a relatively small number of individuals. The New Growth Path seeks to place BBBEE in a growth and employment framework. It calls for a substantial revision of BBBEE Codes to increase employment, skills development and new investment.

On labour market policy, the document pursues three objectives: to promote partnerships for productivity improvements, to address concerns about the vulnerability of workers in the labour market, and to ensure more efficient decision-making. It calls for productivity pacts between business and labour at workplace and sector level. It commits to action by government to reduce worker vulnerability by addressing problems in contract work, sub-contracting, outsourcing and labour broking. Reforms to the CCMA should also reduce abuse by managerial and other high-level staff.

Laying the basis for implementation

The New Growth Path identifies measures to strengthen the capacity of the state and enhance the performance of the private sector to achieve the employment and growth goals.

The New Growth Path proposes major improvements in government, with a call for slashing unnecessary red-tape, improving competition in the economy and stepping up skills development.

The New Growth Path sets targets for scarce and key skills and identifies the role of government departments and agencies in working to meet these goals. This emphasis on skills applies across the economy and will be a centrepiece of partnership with business and labour. Key targets include the aim to produce:

- 30 000 more engineers by 2014, with an improved focus on high school maths and science and changes to university funding formulae to achieve this, and
- 50 000 more artisans by 2015, with annual targets for Eskom and Transnet and for individual SETAs to achieve this.

The document calls for stepping up the focus on workplace training, targeting on-the-job training and refresher programmes for 10% of the workforce every year. It also calls for measures to make it easier to import scarce skills by streamlining the work permit and visa system. This will be accompanied by a skills transfer programme to ensure that local skills development is enhanced.

It recognises that South Africa cannot develop as an enclave in Africa. It identifies major opportunities on the African continent and calls for greater focus by South African business on opportunities in Africa's fast-growing economies. This is accompanied by commitments to improve cross-border infrastructure and

measures to address unnecessary regulatory obstacles to the movement of people and goods, as part of building a common market on the continent.

It sees active stakeholder engagement and collective action as central to building a better South Africa. It requires that the government (a) facilitate national and workplace productivity accords, (b) support community organisation, including through the Community Works Programmes and other delivery mechanisms that build community and collective action, and (c) strengthen existing institutions for social dialogue, including Nedlac, sectoral and local forums.

The implementation process for the New Growth Path must manage key risks as well as ensuring clear prioritisation. These risks include the still fragile global recovery; competition and collaboration with the new fast-growing economies; and competing interests domestically.

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